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DEPARTMENT OF AUDITOR-CONTROLLER**

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April 14, 2010

TO: Supervisor Gloria Molina, Chair
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **COMMUNITY UNION, INC. CONTRACT REVIEW – A DEPARTMENT
OF PUBLIC SOCIAL SERVICES COMMUNITY SERVICES BLOCK
GRANT PROGRAM PROVIDER**

We have completed a fiscal review of Community Union, Inc. (CU or Agency), a Department of Public Social Services (DPSS) Community Services Block Grant (CSBG) Program provider.

Background

DPSS contracted with CU, a private non-profit organization, to provide and operate the CSBG Program. The CSBG Program assists low-income families and individuals to become self-sufficient by providing writing, public speaking, and professional computer application training courses to improve participants' job skills. The County contracted with CU from Fiscal Year (FY) 2004-05 to FY 2007-08 to provide services to eligible participants in the First, Second, and Fifth Districts. On April 1, 2005, responsibility for the CSBG Program transferred from Community and Senior Services to DPSS. Currently, CU does not have any contracts with the County.

DPSS compensated CU on a cost-reimbursement basis and paid CU \$128,770 for FY 2007-08.

Purpose and Methodology

The purpose of our review was to determine whether CU complied with the contract terms and appropriately accounted for and spent CSBG funds in providing the services outlined in their County contract. We also evaluated the adequacy of the Agency's accounting records, internal controls and compliance with federal, State and County guidelines. In addition, we interviewed CU's Executive Director (Director). DPSS requested our review due to significant concerns noted during their close-out monitoring review of CU.

Results of Review

Overall, the areas of non-compliance noted in this review are very significant. CU did not comply with the County contract and lacked sufficient internal controls over basic business processes. In addition, 90% of the expenditures we reviewed were unallowable or unsupported. Specifically, CU:

- Over-billed DPSS for \$40,177 (90%) of the \$44,821 expenditures reviewed including \$13,169 in unallowable subcontractor costs, \$7,724 in unsupported and/or unallowable supply expenses and \$19,284 in unallowable payroll expenses.
- Did not maintain basic cash and revenue handling internal control procedures.
- Did not comply with federal and State tax regulations.
- Did not maintain the required insurance coverage.
- Did not maintain a written Cost Allocation Plan to allocate shared costs.

In light of the findings contained in this report and the County's long-standing policy to conduct business only with responsible contractors, any County departments which may, at some point in the future, receive a proposal, bid or statement of qualifications from this contractor, or from one of its principals, will need to carefully evaluate the potential contractor's responsibility. That evaluation may include, but would not necessarily be limited to, an evaluation of how CU has implemented the recommendations contained in this report.

Details of our review, along with recommendations for corrective action, are attached.

Review of Report

We met with CU and DPSS on November 9, 2009 to discuss our report. CU's Director attended but refused to review and discuss the details of our report. Subsequently, the Agency provided the attached response.

CU's response contained a number of inaccurate comments or comments that did not relate to the findings noted in our report. Specifically, CU indicated that we did not formally notify the Agency of our review until July 2009. Also, CU indicated that we did not visit their office or request documentation to support program expenditures. In addition, CU indicated that we received most of our findings second-hand from DPSS.

In January 2009, we notified CU of our planned review. DPSS also notified CU's Director of the review. However, the CU Director continually delayed the start of our review until July 20, 2009. At our entrance conference with CU and DPSS on July 20, 2009, we requested the Agency provide documentation to support program expenditures. The CU Director indicated the Agency provided DPSS with the required documentation and that CU did not have any additional documentation to provide.

We subsequently performed an independent review using the documentation CU previously provided to DPSS. Throughout the review, we allowed CU numerous opportunities to provide additional documentation or explanations that would resolve the exceptions we noted. However, CU did not provide the required documentation.

DPSS management agreed with our findings and recommendations and noted that CU's non-compliance with the County contract and internal control weaknesses were very serious. DPSS plans to pursue collection on the overbilled amounts. Please call me if you have any questions or your staff may contact Don Chadwick at (213) 253-0301.

WLW:MMO:JET:DC:AA

Attachment

c: William T Fujioka, Chief Executive Officer
Philip L. Browning, Director, Department of Public Social Services
Cynthia D. Banks, Director, Community and Senior Services
Gabriel Chavez, Board President, Community Union, Inc.
Larry Ortega, Executive Director, Community Union, Inc.
Public Information Office
Audit Committee

**COMMUNITY SERVICES BLOCK GRANT PROGRAM
COMMUNITY UNION, INC.
FISCAL YEAR 2007-08**

CASH/REVENUE

Objective

Determine whether cash receipts and revenue are properly recorded in Community Union, Inc.'s (CU or Agency) financial records and deposited timely in their bank account. In addition, determine whether the Agency maintained adequate controls over cash.

Verification

We interviewed the Agency's Executive Director (Director) and reviewed financial records for the months of July and October 2007. We also reviewed the Agency's bank statements for Fiscal Year (FY) 2007-08.

Results

The Agency's cash and revenue handling procedures violate basic internal controls and significantly impact the Agency's ability to prevent and/or detect a misappropriation of Community Services Block Grant (CSBG) Program funds. Specifically, CU did not:

- Adequately monitor their checking account balance. The Agency's bank statements consistently reported negative account balances and CU incurred non-sufficient fund charges and overdraft fees totaling \$1,821 during FY 2007-08.
- Adequately separate cash handling duties. The Director performed all of the cash handling duties (i.e., preparing and signing checks, making deposits, etc.) including preparing and signing checks payable to himself. In addition, all 21 checks reviewed totaling \$500 or more had only one signature. The County contract required two signatures on all checks over \$500.
- Maintain cost centers to track program funding as required by the Auditor-Controller Handbook. CU used only one cost center in their general ledger even though the Agency had multiple funding sources.

Recommendations

Before entering into any new contracts with the County, CU management:

- 1. Develop procedures to monitor checking account balances.**
- 2. Separate cash handling duties.**

3. Establish cost centers to track transactions by contract.**EXPENDITURES/PROCUREMENT****Objective**

Determine whether program related expenditures are allowable under the County contract, properly documented and accurately billed.

Verification

We interviewed CU's Director and reviewed financial records and other documentation for non-payroll expenditures totaling \$20,893 billed by the Agency during July 2007 and October 2007.

Results

The Agency's accounting records were substantially incomplete and 100% of the expenditures reviewed were either unallowable or unsupported. Specifically, CU charged the Department of Public Social Services (DPSS):

- \$13,169 for unallowable payments made to subcontractors. CU did not obtain prior written approval from DPSS to use subcontractors as required by the County contract.
- \$4,678 for unsupported supply purchases. The Agency did not provide receipts for \$3,351 in expenses and billed \$673 for expenses related to four cell phones even though the Agency had only one employee. In addition, CU billed \$654 for office supply purchases that appear unreasonable and unnecessary (e.g., \$140 for a Waterman pen) and lacked documentation justifying how the supplies were used for the CSBG Program.
- \$1,803 for unallowable equipment storage costs. CU did not provide documentation to support how the expenses were used within the scope of the CSBG Program. In addition, we question the validity of these expenses since the receipts were hand written for "e-waste computer storage" from a thrift store and CU could not provide documentation of a storage contract with the thrift store.
- \$1,243 for unsupported and unallowable travel costs. The mileage logs CU submitted to document their expenditures were incomplete and did not adequately indicate the purpose of each trip. In addition, the Agency did not have prior approval, as required by the contract, to bill the program for out-of-state conference costs (i.e., airfare, hotel expenses, and conference registration) and CU did not provide justification that these expenses were reasonable and necessary.

Recommendations**CU management:**

4. Repay DPSS \$20,893.
5. Develop procedures to ensure billed expenditures are allowable and supported by detailed documentation before entering into any new contracts with the County.

ADMINISTRATIVE CONTROLS/CONTRACT COMPLIANCE**Objective**

Determine whether CU maintained sufficient internal controls over its business operations. In addition, determine whether the Agency is in compliance with other program and administrative requirements.

Verification

We interviewed CU's Director and reviewed their policy and procedure manuals. We also reviewed CU's compliance with other program and administrative requirements.

Results

CU did not maintain the contractually required insurance coverage (e.g., general, auto, workers' compensation, etc.). The Agency also did not comply with federal and State tax regulations. Specifically, CU did not make any tax deposits or pay federal and State payroll taxes during 2007. CU's Director indicated that he does not know when they last paid their payroll taxes. The Director also indicated that he is the only employee on the Agency's payroll and that the other Agency positions are staffed with subcontractors that do not require payroll tax payments. However, CU did not provide us with any subcontractor agreements or other documentation indicating payroll taxes were not required.

Recommendations

Before entering into any new contracts with the County, CU management:

6. Maintain the required insurance coverage (e.g., general, auto, workers' compensation, etc.).
7. Comply with federal and State tax regulations and pay all outstanding payroll taxes.

FIXED ASSETS AND EQUIPMENT**Objective**

Determine whether CU's fixed assets and equipment purchases made with CSBG funds are used for the CSBG Program and are safeguarded.

We did not perform test work in this section as CU did not use CSBG funding to purchase fixed assets or equipment.

Recommendation

None.

PAYROLL AND PERSONNEL**Objective**

Determine whether payroll expenditures are appropriately charged to the CSBG Program.

Verification

We traced the payroll expenditures invoiced for CU's only employee totaling \$23,928 for FY 2007-08 to the Agency's payroll records and time reports. We also interviewed the Director.

Results

We reviewed the \$23,928 in payroll costs charged to the CSBG Program during FY 2007-08 and noted CU over-billed DPSS by \$19,284. The CSBG contract only allows CU to charge 5% of the Director's yearly salary (\$92,862) to the CSBG Program. The maximum allowable charge for the Director's salary for FY 2007-08 was \$4,644.

Recommendation

8. CU management repay DPSS \$19,284 (\$23,928 - \$4,644).

COST ALLOCATION PLAN**Objective**

Determine whether CU's Cost Allocation Plan was prepared in compliance with the County contract and that the Agency used the Plan to appropriately allocate shared program costs.

Verification

We reviewed the Cost Allocation Plan and reviewed a sample of expenditures incurred by CU during July 2007 and October 2007 to ensure that the expenditures were properly allocated to the Agency's programs.

Results

CU did not maintain a written Cost Allocation Plan in compliance with the County contract.

Recommendation

9. Before entering into any new contracts with the County, CU management submit a written Cost Allocation Plan for the new contract.



A non-profit corporation
Positively impacting our economy through technology training and redeployment

December 9, 2009

Wendy Watanabe, Auditor-Controller
County of Los Angeles
Department of Auditor-Controller
Countywide Contract Monitoring Division
350 South Figueroa Street, 8th Floor
Los Angeles, CA 90071

RE: Community Union, Inc.'s CSBG Contract County of Los Angeles '07-'08 Review

Dear Wendy:

Please let me begin by stating that I am happy the Auditor-Controller's (AC) Office is now involved in the review and determination of Community Union's activity relative to the CSBG contract with the County of Los Angeles. It has been one long nightmare dealing with the inexperience of DPSS in this matter. We have literally wasted over \$20,000 and countless hours, and trees (over 1300 pages of copied receipts, invoices, timesheets, etc.), in attempting to reconcile our differences with the CSBG contract.

I will start with the 2 biggest glaring discrepancies in the Draft Report I received from the AC's Office, and then proceed to deal with the smaller issues.

1. "Repay DPSS \$20,893"

- a. Community Union (CU) does not agree with this statement, but is not surprised at the findings drafted by the AC's Office. The AC's Office received most of their findings information second-hand from DPSS. Not once did the AC visit our office, interview me personally, or directly ask for backup documentation relative to their investigation. In fact, I was never formally notified the AC's Office would be engaged in this matter, until our first meeting on July 20, 2009, literally 10 months after DPSS initiated their investigation. So it is very easy for me to understand how some of the conclusions could have been drawn, since the AC's Office did not have the benefit of all the information.
- b. On the issue of subcontractor or employee: we are extremely delighted the AC found no discrepancy with the time charged to the CSBG contract and that they concur that all time was appropriately charged toward the CSBG contract. I think the sticky-point is semantics, and that is whether the folks that were on the job for CU, working to help low-income families under the CSBG contract, were subcontractors or employees. We have sought legal counsel on this matter and have concluded that it is definitely a gray area, or at least was a gray area at the time we were engaged in the CSBG contract (2000-2008). Today it is more clear, during the audit period it was not. So for the purposes of this response we will call these folks working under CSBG contract, employees. This effectively eliminates \$13,169 of the repay claim.
- c. On the issue of unsupported supply purchases: CU provides computer training services to low-income families in a structured environment using instructors and CU manuals. During the audit period, CU served more than (graduated individuals from this structured program) 450 persons. Per the contract CU is allowed a charge of \$189 per set of manuals given to the students. This charge represents the intellectual property value of the manuals, and is somewhat obscure in the contract, and probably not handled in the best way, as it is charged as a supply which when one thinks of supplies they think pencils, papers, copies. It is clear the AC's Office was not privy to this fact. This charge is contractually allowable and is covered by both the CSBG contract and our in-kind contribution commitment. We have preferred to put the majority of our in-kind contribution toward the CU manuals rather than the receipts for pencils, papers, copies. So as a matter of practice we would take the traditional supplies receipts and allowed the balance of what was left to go to the CU manuals charge. When doing the math on the CU manuals you can see that it is

- quite a significant cost being covered mostly by CU's in-kind contribution commitment. This effectively eliminates the \$4,678 repay claim.
- d. On the issue of storage costs: We provide a training program called the Technology Redeployment Program, please click on this link to understand the breadth of this program: [CU's TRP from East L.A. Community Technology Center](#). Students in a training environment refurbish computers that they take home after completing their training. Surplus computers refurbished are given away at our annual holiday computer giveaway. Last time we did the giveaway in East L.A. there were over 200 families that showed for the holiday drawing. Bargain Town Thrift Stores is located in West Covina/LaPuente area. They have a fleet of trucks and storage area that they pickup computers from households all over the Southland, and store them for us at their location in West Covina. Approximately 50% of the equipment donated is unusable, un-refurbishable if you will. There is a cost that is associated with disposing electronic equipment, particular those that are considered hazardous waste which some older type monitors are considered to be hazardous waste. It was, at the time we used Bargain Town to store and dispose of computers, an industry standard for e-waste storage and disposal to be a cash business. Depending on the number of computers stored and the amount of e-waste generated, Bargain Town would charge us a nominal fee compared to their overall e-waste disposal cost. That fee we paid using the "rent equipment" line item in the CSBG budget. This may have not been the best way to categorically account for this cost but it worked for us for 8 years, and for at least 7 of those years worked for the CSBG contract monitors, auditors, etc. To reiterate, we giveaway 100's of computers every year to low-income families in the County of Los Angeles Supervisorial Districts served by the CSBG contract. AC's Office acknowledges they have the receipts and concur the amount of receipts equal that of what was charged to the contract. We are hopeful this articulates well the relationship with storage costs at Bargain Town and how it ties to the CSBG contract. This effectively eliminates \$1,803 of the repay claim.
- e. On the issue of travel costs: CU is not surprised if the AC's Office is unable to reconcile the receipts submitted in support of travel expenses billed to the CSBG contract, as that information was submitted to the AC second-hand, through DPSS. However, CU travel expenses for the CSBG contract included an NCLR conference. NCLR (National Council of La Raza) is the most influential Latino organization in the country. They have a wealth of resources at their disposal for low-income communities, particularly the Latino community. As leaders in the community, as teachers in the community that we serve under the CSBG contract, it is absolutely imperative we attend one of these conferences on occasion. This particular conference was leading up to a Presidential election race and it was imperative to understand the tools proposed and the tools existing relative to serving the low-income communities. This was no obscure event. A must show for any leader working in the Latino community. The contract provides that CU can travel, receipts for the same have been submitted in October-07 for the amount of \$703.68, and in July-07 for the amount of \$1,224.20. In reconciling the AC's Office findings we found that we actually under-billed the CSBG contract in each of those months. It is unclear to us what the AC's Office means by incomplete or the inadequacy of a stated purpose for the trip. However, we will assume the AC's Office is unaware that we run 6 Community Technology Training Centers under the CSBG contract. These centers are located in East L.A., South L.A., Los Nietos (Whittier), and Duarte. Our trainers and I are required to visit the centers regularly, move equipment, supplies, meet for strategy meetings, community meetings, formal City Council and School Board meetings, open houses for community based organizations, etc. There is much travel our staff is required to do as a matter of promoting the training we offer, as a matter of supporting our allies in the community who work tirelessly to improve the quality of life for the community they serve. The purpose of each trip ultimately is to promote and stay engaged in the community as to best serve the community in the work we do relative to technology training. Our courses are beyond keyboarding, but rather CU courses represent the tool to which community can become civically engaged, and identify both economic and educational resources available to them in their communities. This is not accomplishable without being actively engaged in the community ourselves. This effectively eliminates \$1,243 of the repay claim.

"Repay DPSS \$19,284"

- a. We are happy the AC's Office concurs with us that the hours spent under the CSBG contract are valid hours chargeable to the CSBG contract, and understand it is unlikely the AC's Office would comprehend our operation since they never interviewed the Executive Director or his staff. As such, we submit the following:
-

- i. CU has met or exceeded the contract requirements, which is measured by the number of persons served, in each year they have contracted with the County of Los Angeles under CSBG, training thousands of low-income community members,
- ii. CU has graduated in excess of 17,000 students from their structured computer training programs and given away over 2000 free computers,
- iii. Basic training in computers for one day of class, cost in excess of \$1,100 per day if this service is provided by a professional training company, and the professional training company, unlike CU training, cannot provide training in the language needed to be effective,
- iv. CU provides a comprehensive practical application computer training program that trains community members on computers for **10 weeks** and for about \$19,000 less when compared to a professional training company,
- v. The reason CU is able to provide such an excellent service at such nominal cost is because our team wears many hats in providing the service to the community. We are a small operation comparatively speaking, that plays a very big role in leading our community to academic and economic success. So yes, the Executive Director will play many roles, and many times will not be compensated accordingly at a wage deserving of the skills he brings to the program, but nonetheless will perform the task. CU understands the AC's Office to have found CU to have charged the correct payroll amount to the CSBG contract per the amounts stated in the contract and finds no discrepancy with that, but were unaware of the many hats the individuals wore under the CSBG contract. The AC is more accurate to state that Larry Ortega, not the Executive Director, was paid \$23,928. We had many staff changes during the course of the contract, which also added to the roles each of us played, but we never overbilled the CSBG contract relative to payroll as the AC Office concurs. In other words, the overall payroll amount charged to the CSBG contract was correct, it was just the distribution of where those payroll dollars went that differed slightly from the percentages indicated on the contract, because of the many hats we wear in the program. This effectively eliminates \$19,284 of the repay claim.

I am certain that many of these discrepancies noted on the AC's draft report could have been eliminated had we met under the standard protocol of an audit, however with DPSS' attempt to reconcile and then bring your office in after the fact seemed to taint the process and did not allow for a clean exchange of information.

Relative to the other findings on Cost Allocation Plan and Administrative Controls, we have submitted our Accounting Procedure handbook and a copy of our Payroll / Subcontracting policy to DPSS at the July-07 meeting, and are happy to copy the AC's Office on the same. We were by far from being perfect in terms of how we managed the unique challenges of the very specific service we provide, but at no time were funds misappropriated, mismanaged, at no time did billings represent costs incurred from an effort outside the CSBG contract, and at no time were we attempting to be non-transparent. We have had an excellent relationship with our CSBG contract monitors first under CSS and then under DPSS, and have been completely forthcoming to these contract monitors in all of our activities relative to delivering the service as contracted. We have had an excellent relationship with County of Los Angeles deputies from all 3 of the Supervisor's Office. We have received a number of accolades from these same offices for the work we have done over the last 8 years under the CSBG contract, there have been minimal complaints relative to the service we provide to the community and we have always exceeded the expectations of the contract. We know there may be some outstanding receipts not accounted for by the AC's Office but we are looking to help the AC's Office close this matter and are happy to get them any additional information they ask for.

Sincerely,



Larry A. Ortega
President/CEO
